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SUBJECT: CHINA'S ENGAGEMENT IN AFRICA - KENYA RESPONSE

Refs: A. State 41697, B. Nairobi 4246, C. 07 Nairobi 1002, D. 07 Nairobi 0075

¶1. (SBU) Summary: China's engagement with Kenya is primarily a private sector-led effort, focused on trade generally, and the supply of goods and services in key infrastructure sectors like roads, info-tech, and energy. The Chinese government appears not heavily involved in those areas where the U.S. is most active, such as health, education, the environment, governance, human rights, counter-terrorism, and private sector development. We have regular contacts with Chinese officials (last fall the U.S. and Chinese Ambassadors sponsored a U.S.-China "ping pong diplomacy" tournament; we lost), but we have no cooperation on specific projects. End summary.

¶2. (SBU) In response to ref A, Embassy Nairobi directs Washington to refs B, C, and D. Ref D is a baseline cable on the China-Kenya trade relationship. Ref C touches on the Chinese investment, or lack thereof, in Kenya, and ref B provides insights into how Chinese technology companies are doing business in the country.

Chinese Engagement in Kenya - Private Sector

¶3. (U) Chinese engagement in Kenya, as discussed in refs B-D, is largely driven by private sector activities, with frequent support from the Chinese government in the form of concessional financing. As emphasized and analyzed ref D, Kenya's relationship with China is underpinned by rapidly growing bilateral trade. In 2006 (the latest year for which data is available in Kenya), Kenya's exports to China grew by 21 percent; imports from China grew an even greater 29 percent. But Chinese exports to Kenya are growing from a much larger base, and the trade relationship is heavily skewed in China's favor. It exported almost 20 times more to Kenya than it imported in ¶2006.

¶4. (SBU) As noted ref C, there is little foreign direct investment by Chinese firms in Kenya in the sense of new green field investment in factories that generate jobs and technology transfer for Kenya. Most Chinese firms find it easier to simply export goods to Kenya from their manufacturing bases in China. But within Kenya, Chinese firms are very active in several key sectors:

-- Road Building: Chinese engineering firms, backed by concessional financing from the Chinese government, continue to win contracts to build or rebuild Kenya's decrepit road network. A Chinese firm is currently widening the key artery linking downtown Nairobi and the international airport, and Chinese firms are ready to begin construction of two long-overdue bypass highways around the city.

-- ICT infrastructure: As noted ref B, Chinese technology companies are extremely competitive in winning government tenders to build or supply Kenya's rapidly expanding telecom and broadband networks.

Huawei and ZTE each have contracts to build sections of a national terrestrial fiber optic backbone network now under construction.

-- Natural Resources: Please see ref C for details on the involvement of the Chinese National Offshore Oil Company (CNOOC) in oil and gas exploration in Kenya. Interest by China in hydrocarbons in Kenya appears to have waned after the expensive failure in 2007 of an Australian company to discover oil or gas off the Kenyan coast. In July, 2007, CNOOC handed back to the Kenyan government four of six exploration blocks it had been awarded in April, 2006. A Chinese firm is also a major investor in a titanium mine project whose long delays may cause the original Canadian investor to divest its interest in the project.

-- Energy: A Chinese engineering firm has the contract to enhance the capacity of the primary pipeline that carries oil and gas from the port of Mombasa into the interior of East Africa.

-- Airport construction: A Chinese engineering firm won the Kenya Airports Authority (KAA) contract for the Sh2.6 billion first phase of the expansion of Jomo Kenyatta International Airport (JKIA) and is likely to win the contract for the second phase. Phase 1 involved construction of a taxiway, an apron, work on the new terminal building, extension of the fuel hydrant system and fencing. Phase 2 will expand the cargo apron loading capacity. Another Chinese firm won the KAA contract for the Sh3 billion reconstruction of Kisumu Airport. The project will expand the terminal, car park, apron and taxiway, lengthen the runway to three km and widen it, enabling the Kisumu to handle Boeing 737 aircraft and become an international airport.

Chinese Government Engagement

15. (SBU) In the absence of greater transparency on the part of the Chinese embassy in Nairobi in terms of its activities and assistance and exchange programs, it is difficult to ascertain exactly where and how the Chinese government is engaging in Kenya. An in-house survey of relevant USAID/Kenya offices yielded virtually no indication of current Chinese involvement in the health, primary/secondary education, environment, or security sectors. The Chinese government does provide sponsorship for around 80 Kenyans to study at Chinese universities each year, and has also developed a cultural exchange program under which Kenya acrobats (usually children) study that sport in China. The Chinese embassy provided nearly \$5 million in 2007 to repair the Moi International Sports Center in Nairobi, which the Chinese government built in the 1980s. The Chinese Foreign Service Institute hosted the Kenyan Foreign Service Institute Director and some of his staff for two weeks in January 2008 to see how China trains its diplomats, and the Chinese Institute will provide further training to Kenyan diplomats.

16. (SBU) On the military side, the Chinese donated about \$3 million late in 2007 to the Kenyan military to acquire spare parts for aircraft the Chinese had sold to Kenya several years earlier. The Chinese and Kenyan militaries are also scheduled to conclude a sale this year of a small number of troop transport helicopters. The Chinese do not have a resident defense attache in Nairobi, but they do offer a limited number of military training slots, similar to the U.S. IMET program, each year to the Kenyan military.

Current Level of Engagement with U.S.

17. (SBU) Given the apparent lack of Chinese involvement in sectors in which the U.S. Mission is active (e.g. health, education, the environment, governance, counter-terrorism, and private sector development), bilateral engagement in Kenya between the U.S. and China is limited. As noted previously, the key structural difficulty in working with the Chinese is that the Chinese embassy has thus far declined to join the Nairobi donor umbrella organization, the Donor Coordination Group, chaired by the World Bank. It is thus problematic to know precisely what kinds of assistance China is providing to Kenya and where therefore other donors such as the U.S. might be able to work together with it.

Areas of Potential Bilateral Cooperation

18. (SBU) That said, at a standing-room-only seminar on April 24 entitled "China in Africa: Opportunities and Challenges," Chinese Ambassador to Kenya Zhang Ming spoke candidly to the many civil society members in attendance about China's policies and activities in Africa generally, and Kenya specifically. He expressed interest in greater engagement and cooperation with civil society and other donor governments in the following areas, which Embassy Nairobi will further explore with Zhang and his staff in the months ahead. These included:

- Media Capacity Building: Xinhua news agency's headquarters in Africa is in Nairobi.
- Bird Flu: Given the global nature of the bird flu threat, China is interested in helping in detection and surveillance
- Peacekeeping: There are 1,500 Chinese UN Peacekeepers, 350 of whom are in Darfur. Citing AFRICOM, Zhang asked if there was room for military cooperation in Africa.
- Corporate social responsibility and labor rights.

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